

Euro wrap-up

Overview

- Bunds made gains as the ifo survey signalled an increasing likelihood that the German economy contracted in Q3, with current conditions judged to be the worst in more than four years.
- Gilts made modest losses on a quiet day for UK economic news.
- The coming two days will bring results of German, French and Italian consumer surveys, an Italian business survey and ECB monetary figures.

Emily Nicol
+44 20 7597 8331

Daily bond market movements

Bond	Yield	Change
BKO 2.7 09/26	2.087	-0.056
OBL 2½ 10/29	1.958	-0.038
DBR 2.6 08/34	2.140	-0.014
UKT 4½ 01/27	3.908	+0.000
UKT 4½ 07/29	3.764	+0.016
UKT 4½ 07/34	3.935	+0.013

*Change from close as at 4:30pm BST.
Source: Bloomberg

Euro area

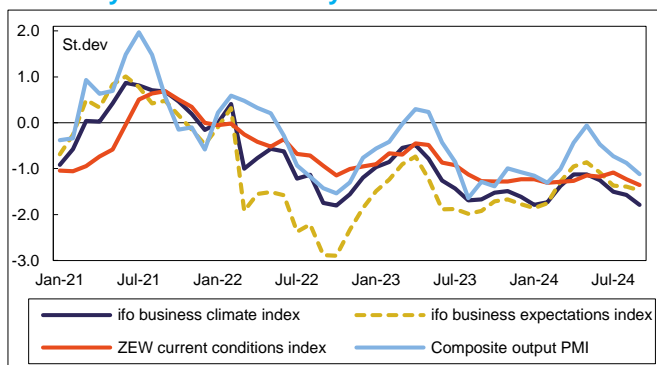
Surveys suggest that Germany's economy slipped into recession over the summer

Germany's post-pandemic recovery has disappointed, with economic output in Q2 just 0.2% above the pre-pandemic level, by far the worst performance of all the larger member states. The lack of momentum in part reflects the impact of restrictive monetary policy on borrowing, which curtailed investment, particularly in construction. But German manufacturing has also been in a trend decline since 2018 as firms struggled to maintain market share amid more intense competition from abroad and a domestic energy crisis. And while services has provided some offset over the past year, recent indicators – including yesterday's [flash PMIs](#) and today's ifo business survey – point to a broad-based deterioration at the end of Q3. Certainly, the drop in the ifo survey's current business conditions index was most striking in September, declining for a third consecutive month and by 2.0pts – the most in thirteen months – to 84.4, the lowest since the first Covid-19 wave and the global financial crisis before that. Moreover, firms' expectations for the coming six months were the weakest for seven months. Overall, the headline ifo business climate index (85.4) was the weakest since July 2020, down around 3% in Q3 and a hefty 11% below the long-run average.

A marked broad-based worsening in current conditions

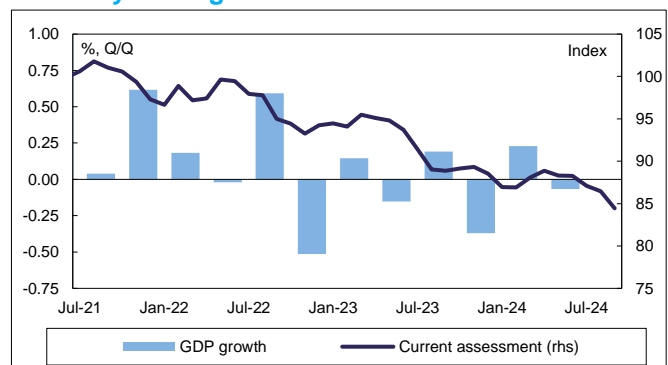
Consistent with the PMIs, manufacturers judged the current business situation to be the worst in about four years, with firms citing an increasing lack of orders. The ifo flagged broad-based weakness across the core industries, including the autos, machinery, electrical equipment and chemicals subsectors. And with expectations for the coming six months having worsened, there is a non-negligible risk that industrial production will remain a drag on GDP growth into 2025. Today's survey also signalled a notable deterioration in services sentiment, with firms in the sector notably less satisfied about the current situation – indeed, the respective index fell to the lowest since February 2021. Admittedly, given an improvement in sentiment in hospitality and tourism-related subsectors, firms were somewhat less concerned about the near-term outlook. Meanwhile, retailers were more downbeat about current conditions as consumer purse strings remained tight, while construction firms considered conditions to remain challenging. Overall, the latest surveys suggest that risks to the near-term outlook remain firmly skewed to the downside, with the likelihood that Germany's economy slipped into recession over the summer having increased. And with signs that recovery momentum in the euro area's largest member state will remain lacklustre into 2025 too, the latest dataflow bolsters the case for a further ECB rate cut sooner rather than later.

Germany: Selected survey indices



Source: Macrobond, S&P Global and Daiwa Capital Markets Europe Ltd.

Germany: GDP growth & current assessment



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

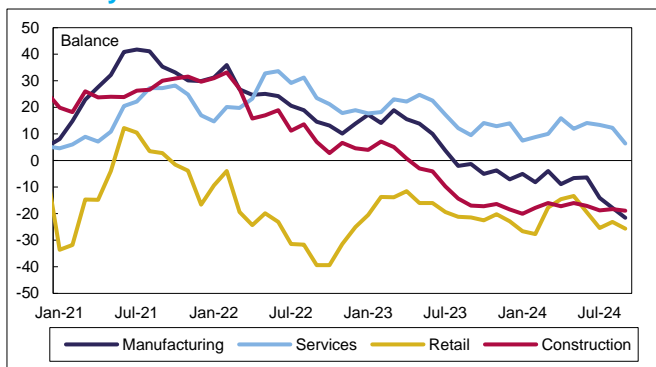
The coming two days in the euro area

Sentiment surveys will continue to dominate the dataflow over coming days. After the flash Commission estimate of euro area consumer confidence rose in September to the highest level since Russia's invasion of Ukraine in spring 2022, the German GfK, French INSEE and Italian ISTAT consumer confidence indices will provide more colour. But while income expectations are likely to improve further, the detail is also likely to suggest that consumers remain reluctant to spend on big-ticket items, preferring instead to maintain precautionary savings. The ISTAT survey will also bring an update on business conditions at the end of Q3, while ECB monetary figures for August might well report a modest increase in lending following the recent easing in borrowing costs, albeit growth will remain very subdued by historical standards. Separately, ECB President Lagarde and hawkish Executive Board member Schnabel will speak at various events on Thursday.

The coming two days in the UK

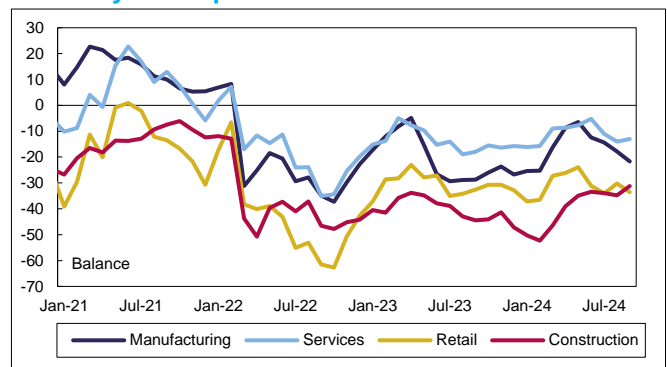
While there are no top-tier UK economic data due over the coming two days, BoE external MPC member Greene is due tomorrow to give a speech about consumption.

Germany: ifo current assessment indices



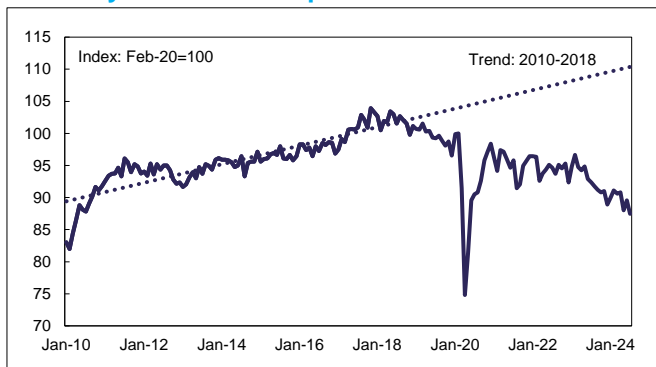
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: ifo expectations indices



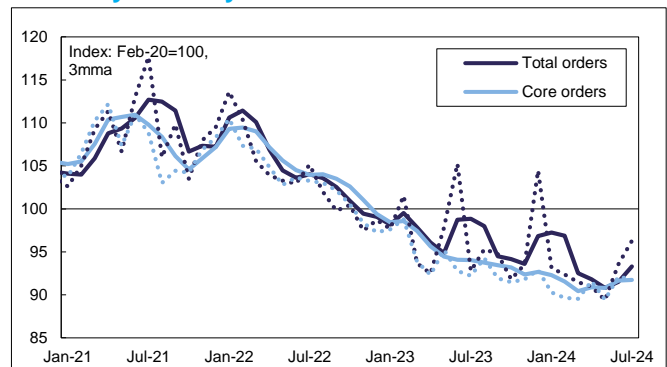
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Industrial output



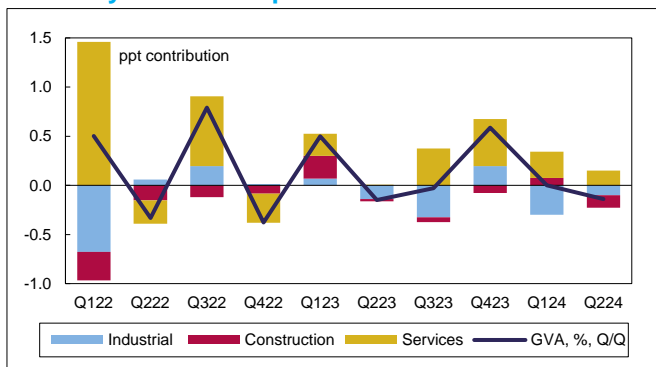
Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: Factory orders*



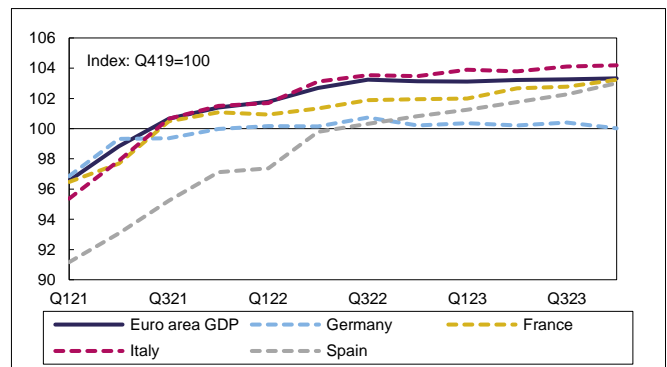
*Dotted lines represent unsmoothed data. Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Germany: GVA & output contributions



Source: Macrobond and Daiwa Capital Markets Europe Ltd.

Euro area member states: GDP levels





Source: Macrobond and Daiwa Capital Markets Europe Ltd.



European calendar

Today's results

Economic data

Country	Release	Period	Actual	Market consensus/ <i>Daiwa forecast</i>	Previous	Revised
Germany	 Ifo business climate indicator	Sep	85.4	86.0	86.6	-
	 Ifo current assessment (expectations) indicator	Sep	84.4 (86.3)	86.0 (86.4)	86.5 (86.8)	86.4 (-)



Auctions

Country	Auction
Germany	 sold €3.71bn of 2.7% 2026 bonds at an average yield of 2.14%
UK	 sold £1.5bn of 0.75% 2033 inflation-linked bonds at an average yield of 0.486%







Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Tomorrow's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
France	 07.45	INSEE consumer confidence indicator	Sep	92	92
Spain	 08.00	PPI Y/Y%	Aug	-	-1.4






Auctions and events

Germany	 10.30	Auction: to sell €3bn of 2.4% 2030 bonds
Italy	 10.00	Auction: to sell up to €2.75bn of 3.1% 2026 bonds
	 10.00	Auction: to sell up to €1.25bn of 1.5% 2029 inflation-linked bonds
	 10.00	Auction: to sell up to €1.25bn of 2.4% 2039 inflation-linked bonds
UK	 09.00	BoE's Greene to give a speech on consumption in Newcastle
	 10.00	Auction: to sell £3.75bn of 4% 2031 bonds



Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

Thursday's releases

Economic data

Country	BST	Release	Period	Market consensus/ <i>Daiwa forecast</i>	Previous
Euro area	 09.00	M3 money supply Y/Y%	Aug	2.5	2.3
Germany	 07.00	GfK consumer confidence indicator	Oct	-22.5	-22.0
Italy	 09.00	ISTAT consumer confidence indicator	Sep	97.0	96.1
	 09.00	ISTAT business (manufacturing) confidence indicator	Sep	-(87.2)	94.7 (87.1)
Spain	 08.00	Retail sales Y/Y%	Aug	1.4	1.0

Auctions and events

Euro area	 09.00	ECB to publish Economic Bulletin
	 17.00	ECB's Schnabel scheduled to speak at an event in Stuttgart

Source: Bloomberg and Daiwa Capital Markets Europe Ltd.

The next edition of the Euro wrap-up will be published on 26 September 2024

Access our research blog at:

<https://www.uk.daiwacm.com/ficc-research/recent-blogs>

This research report is produced by Daiwa Securities Co. Ltd., and/or its affiliates and is distributed by Daiwa Capital Markets Europe Limited ("DCME"). DCME is authorised and regulated by The Financial Conduct Authority and is a member of the London Stock Exchange. DCME and its affiliates may, from time to time, to the extent permitted by law, participate or invest in other financing transactions with the issuers of the securities referred to herein (the "Securities"), perform services for or solicit business from such issuers, and/or have a position or effect transactions in the Securities or derivatives or options thereof and/or may have acted as an underwriter during the past twelve months for the issuer of such securities. In addition, employees of DCME and its affiliates may have positions and effect transactions in such the Securities or derivatives or options thereof and may serve as Directors of such issuers. DCME may, to the extent permitted by applicable UK law and other applicable law or regulation, effect transactions in the Securities before this material is published to recipients.

This publication is intended only for investors who are professional clients as defined in MiFID II and should not be distributed to retail clients as defined in MiFID II. Should you enter into investment business with DCME's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

DCME has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at <http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory>. Regulatory disclosures of investment banking relationships are available at <https://daiwa3.bluematrix.com/sellside/Disclosures.action>.

Explanatory Document of Unregistered Credit Ratings

This report may use credit ratings assigned by rating agencies that are not registered with Japan's Financial Services Agency pursuant to Article 66, Paragraph 27 of the Financial Instruments and Exchange Act. Please review the relevant disclaimer regarding credit ratings issued by such agencies at:

https://drp.daiwa.co.jp/rp-daiwa/direct/reportDisclaimer/credit_ratings.pdf. If you need more information on this matter, please contact the Research Production Department of Daiwa Securities.

IMPORTANT

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Daiwa Capital Markets Europe Limited retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.